

Audit Procurement

The original recommended practice was developed by the Government Finance Officers Association (GFOA). Some aspects of the practice have been revised by the Financial Management Capacity Building Committee (FMCBC) for use by Nova Scotia municipal governments. The original GFOA recommended practice is *Audit Procurement*, approved by the Committee on Canadian Issues in 2002. Other sources used are footnoted in the text.

Recommendation

The GFOA recommends that specific elements be included when selecting independent auditing services for a municipality's financial statements. The GFOA recommends that the independent audit scope should include fair basic financial statements, individual funds, and component units. The GFOA also recommends that municipalities should require their audit contracts include the auditors to conform to generally accepted government auditing standards found in the CICA Handbook. Furthermore, municipalities should enter into multiyear (at least five years) agreements of independent auditors. This would allow for greater continuity and a reduction in the potential for disruption with the independent auditor. In addition, municipalities should undergo a full competitive process in selecting the independent auditor. Lastly, when selecting an independent auditor, the auditor's ability to perform a quality audit should be the principle decision-making factor.

Purpose

Audit procurement is the selection of an external or independent auditor for a municipality. A municipality is required under Section 42 the Municipal Government Act (MGA) (see *Appendix I*) to have a registered auditor of the municipality. Municipalities are also required to conform to the Agreement on Internal Trade for Procurement (see *Appendix II*) when seeking an external auditor. In addition to the financial statement audit, the audit committee can ask for an external audit in areas of interest or controversy.

Background

Municipal councils procure the services of an external auditor to perform financial statement audits and other audits as they see fit. External auditors work for and are accountable to the audit committee of the municipality.¹ External auditors are primarily

¹ Goodfellow, James and Maureen Sabia. [Integrity in the Spotlight: Audit Committees in a High Risk](#)

accountable to the audit committee, they have the right to provide views differently from the audit committee if they see fit. (For further information, see recommendation by the FMCBC's '[Audit Committees](#)' best practice).

Considerations in Policy Development

Establishment of Criteria for Audit of Municipality

When a municipality is selecting an external auditor, certain criteria should be established. Selection criteria may differ across municipalities based on different areas of focus, controversy, or individual importance. However, some criteria should remain constant. For example, when selecting an auditor, a municipality should consider:

- Registered as a municipal auditor;
- Experience in working with municipalities;
- Knowledge of municipal auditing practices;
- Competitive price;
- Availability to provide advice when required; and
- Experience in consolidated financial statements.²

Request for Professional Qualifications

A request for qualifications is a standard request when selecting an auditor or auditing firm. The municipality should determine the professional qualities that they are looking (e.g. specializing in a particular field).³ If the qualifications are met, they should be registered as a municipal auditor (SNSMR has a compiled list of registered municipal auditors).

Selection Criteria

Clear identification of the requirements associated with the decision to contract is of critical importance. In acquisitions where requirements and specifications are clear, the records of likely suppliers are relatively uniform and discretionary judgement is at a minimum, then price or cost should be the primary consideration. Another component that should be considered is the yearly incremental price increases from the auditor. In addition, auditors may also be selected for reasons beyond price. The amount of services provided, the amount of experience the auditor possesses, or the quality of the auditor should be taken into consideration in the selection process. Selection should be based on the lowest qualified bidder.⁴ For a description of evaluation criteria, see *Appendix III*.

² World. 2nd ed. Toronto, ON: The Canadian Institute of Chartered Accountants, 2005.

³ Ibid.

⁴ Ibid.

Multi-year Auditor

It is wise to use the same auditor for approximately 3-5 years to establish continuity. By having the same auditor for a significant length of time, lessens transition time and costs on a yearly basis. The auditors are familiar with the municipality and its specific needs.

Evaluation at the End of Term

The performance of an external auditor should always be conducted. Even if an external auditor is rehired for 3-5 years, an evaluation of the auditor's performance should still occur. Evaluations should not only take place to determine the municipality's satisfaction with the auditor, but also to determine if any additional criteria should be established based on the auditor's performance. Municipalities should conduct similar evaluations at the end of each audit to determine their level of satisfaction with the auditor and their performance. The external auditor should be informed of the evaluation criteria that they will be evaluated against at the end of their contract as part of the selection process.

Transition Procedure for Auditors

The municipality should establish a process enabling a smooth transition between auditors and auditing firms. Often a pre-audit meeting occurs between the municipality, exiting auditor, and incoming auditor to discuss the past audits and any changes since the prior audit.

Appendices

Appendix I: Section 42 of the Municipal Government Act

Appendix II: Agreement on Internal Trade

Appendix III: Evaluation Criteria

Appendix IV: Ensure Independence of External Auditor

Appendix I: Section 42 of the Municipal Government Act

Municipal Auditor

- (1) The council shall appoint a municipal auditor who is registered pursuant to this Act to be the auditor for the municipality.
- (2) The auditor shall report to the council on the accounts and funds
 - a. administered by the council; and
 - b. where the control is apparent or implied in the council.
- (3) The auditor's report shall contain the information, and be in the form, required pursuant to the Act.
- (4) The auditor's report shall be filed with the council and the Minister by July 31 in each year.
- (5) The auditor shall report, to the council and to the Minister, any management letters and any communication from the auditor detailing weaknesses in internal control, deficiencies in management information systems or other areas requiring improvement.
- (6) The financial statements of a municipality, as reported on by the auditor, shall set out the remuneration paid to each council member and the chief administrative officer.
- (7) No person shall be appointed as auditor who, at any time during the fiscal year in which the auditor is appointed, is or has been
 - a. a council member;
 - b. a contractor hired by the municipality;
 - c. an employee of the municipality, except that an auditor may be reappointed as auditor.

Appendix II: Agreement on Internal Trade

Municipalities are required to consult the Agreement on Internal Trade (AIT) for the Province of Nova Scotia when procuring auditing services. Municipalities are not required to follow Nova Scotia's Procurement Process, however, if a municipality wishes to seek assistance, the Provincial Procurement Branch will provide support (<http://www.gov.ns.ca/tenders/>).

The following website contains a PDF document of the [Atlantic Procurement Agreement](#) and the [Agreement on Internal Trade in Nova Scotia](#). Municipalities should be familiar with these policies when procuring auditing services.

Appendix III: Evaluation Criteria

Evaluation criteria are the standards and measures used to determine if a proposal has addressed the requirements identified in a bidding opportunity. Evaluation criteria should not be developed in a manner that arbitrarily or unnecessarily excludes a Nova Scotia based product or service. Once basic evaluation criteria are identified, it must be determined which criteria will be mandatory and which will be weighted/ranked. This will identify the appropriate type of selection strategy. With mandatory criteria, suppliers either meet or do not meet the criteria. A points system is not associated with mandatory criteria. Mandatory criteria are those elements that establish the basic requirement of the invitation. Any bid that is unable to satisfy any of these requirements is deemed to be incapable of performing the contract and should be rejected. It is on the basis of the mandatory criteria that the lowest qualified tender is established.

Weighted criteria, on the other hand, represent “nice to have” or “desirable” features, which add value or functionality to the proposal being made. With weighted criteria, the relative importance of each criterion to the overall requirement and to the other criteria must be determined. For each weighted criterion it must also be decided if a mandatory requirement is associated with it. In such a case the criterion is made up of two elements: a mandatory requirement (pass/fail) and a desirable/weighted factor, which applies to features and functionality desired over and above the mandatory requirement and what the department wishes to place additional consideration and value.⁵

http://www.gov.ns.ca/tenders/policy/pdf_files/ProcurementPolicy.pdf.

⁵ Office of Economic Development Procurement Services. “Government Procurement Process”. Province of Nova Scotia. May 31, 2004.
http://www.gov.ns.ca/tenders/policy/pdf_files/ProcurementPolicy.pdf.

Appendix IV: Ensure Independence of External Auditor

In order for the external auditor to provide an objective and unbiased report, they must remain independent from the municipality and the audit committee. There are four main criteria that should be taken into consideration when selecting an external auditor.

1. Identify any threats to the auditor's independence:

- Self-interest Threat
 - Where the auditor or the auditing firm could benefit from or have a financial interest in the result of the audit.
 - Or another conflict of interest.
- Self-review Threat
 - When the external auditor is involved in reviewing his/her own work.
- Advocacy Threat
 - When the auditor or the auditing firm promotes an assurance of the client's position or opinion to the point where objectivity may be impaired.
- Familiarity Threat
 - When the auditor or auditing firm is too close with the client, which may cause them to be too sympathetic.
- Intimidation Threat
 - When the auditor or auditing firm may be deterred from acting objectively and exercising professional skepticism by threats from the clients.⁶

2. The external auditor must evaluate the significance of the potential threats. Based on the threats, safeguards should be determined to eliminate or reduce such threats.

- Professional, legislative, or regulatory safeguards;
- Safeguards established for the auditor; and
- Safeguards within the auditing firm.⁷

3. The following components should be determined before an external auditor is hired:

- Financial interests in the municipality;
- Loans and guarantees to or from the municipality;
- Close professional relationship with the municipality;
- Family and personal relationships with the municipality;
- Future or recent employment with the municipality;
- Serving as an officer, director, or other employee for the municipality;

⁶Goodfellow, James and Maureen Sabia. *Integrity in the Spotlight: Audit Committees in a High Risk World*. 2nd ed. Toronto, ON: The Canadian Institute of Chartered Accountants, 2005.

⁷ Ibid.

- Providing restricted non-assurance services to the municipality; and
- Making management decisions for the municipality.⁸

4. The external auditor is required to document the nature of their working relationship, the independence threat identified, a description of the safeguard applied to eliminate or reduce the threat, and an explanation of how the safeguard eliminates or reduces the threat.⁹

The independence of the external auditor should then be confirmed and validated by the auditing committee. (See recommendation by the FMCBC's '[Audit Committees](#)' best practice for further information).

⁸ Goodfellow, James and Maureen Sabia. Integrity in the Spotlight: Audit Committees in a High Risk World. 2nd ed. Toronto, ON: The Canadian Institute of Chartered Accountants, 2005.

⁹ Ibid.

References

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Office of Economic Development Procurement Services. “Procurement Policy: Province of Nova Scotia Policy on Government Procurement”. Province of Nova Scotia. January 26, 2001.

The Atlantic Procurement Agreement. January 18, 2008
<http://www.cap-cpma.ca/images/pdf/eng/Procurement%20Agreement%20English.pdf>.